

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name EATON CO TRANSPORTATION AUTHOR	County EATON
Fiscal Year End SEPTEMBER 30, 2007	Opinion Date MARCH 18, 2008	Date Audit Report Submitted to State MARCH 27, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

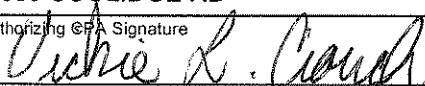
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT REPORT	
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number 517-332-1900	
Street Address 1000 COOLIDGE RD		City EAST LANSING	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name VICKIE L. CROUCH, CPA	License Number 1101013436

EATON COUNTY TRANSPORTATION AUTHORITY

EATON COUNTY, MICHIGAN

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Layton & Richardson, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Eaton County Transportation Authority
Charlotte, Michigan

We have audited the accompanying financial statements of the business-type activities of Eaton County Transportation Authority as of and for the year ended September 30, 2007, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Eaton County Transportation Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Eaton County Transportation Authority as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2008, on our consideration of Eaton County Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 7 and 27 through 37 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eaton County Transportation Authority's basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eaton County Transportation Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Eaton County Transportation Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
March 18, 2008

Eaton County Transportation Authority

Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Eaton County Transportation Authority financial activities for the Fiscal Year ended September 30, 2007. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007 with comparative analysis to year ended September 30, 2006. Please read it in conjunction with the Authority's financial statements, which immediately follows this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended September 30, 2007:

- EATRAN'S assets exceeded its liabilities at the end of the most recent fiscal year by \$1,378,846 (net assets).
- EATRAN'S total net assets increased by \$447,800. The majority of the increase was due to Capital Grants received during the year.
- EATRAN installed a bus wash facility for \$435,508 through a capital grant. Also funded by a capital grant were a vehicle locator, six computers and a telephone system for \$110,584.

Eaton County Transportation Authority

Management's Discussion and Analysis

Required Financial Statements

This annual report consists of a series of financial statements. The statement of Net Assets includes all of EATRAN'S assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligation of EATRAN'S creditors (liabilities). It also provides the basis for evaluating the capital structure of EATRAN and assessing the liquidity and financial flexibility of EATRAN.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Assets. This Statement measures the success of EATRAN'S operations over the past year and can be used to determine whether EATRAN has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the changes in the cash balance during the reporting period.

Financial Analysis of Eaton County Transportation

The statement of Net Assets and the Statement of Activities provide the information to determine how EATRAN did financially during FY 2007. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining EATRAN'S financial health.

Net Assets

The following table shows a condensed comparative statement of net assets as of September 30, 2007.

Eaton County Transportation Authority

Management's Discussion and Analysis

Assets	FY 2007	FY 2006
Current assets	\$ 497,912	\$ 425,645
Fixed assets	<u>1,062,692</u>	<u>663,754</u>
Total assets	\$ 1,560,604	1,089,399
Liabilities		
Current liabilities	\$ <u>181,758</u>	\$ <u>158,353</u>
Total liabilities	\$ 181,758	\$ 158,353
Net Assets		
Invested in capital assets	\$ 987,412	\$ 593,752
Unrestricted	<u>391,434</u>	<u>337,294</u>
Total net assets	\$ 1,378,846	\$ 931,046

The following table shows condensed comparative data for the statement of activities as of September 30, 2007.

Revenues	FY 2007	FY 2006
Operating Revenue		
Demand Response	\$ 190,455	\$ 177,781
Contract Fares	58,344	61,211
Meals-on-Wheels	15,191	15,375
Non-operating Revenue	<u>2,689,186</u>	<u>2,151,878</u>
Total Revenue	\$ 2,953,176	\$2,406,245
Expenses		
Depreciation Expense	\$ 159,432	\$ 183,559
Other Operating Expenses	<u>2,345,944</u>	<u>2,416,953</u>
Total Expenses	\$ 2,505,376	\$2,600,512
Change in Net Assets	\$ 447,800	\$ (194,267)

EATRAN'S operating revenue increased 3.8%, or \$9,623 from FY 2006. This increase was primarily due to an increase in ridership. Non-operating revenue increased 24.9%, or \$537,308 from FY 2006. Operating expenses decreased 2.94%, or \$71,009 from FY 2006.

Eaton County Transportation Authority

Management's Discussion and Analysis

Capital Assets and Debt Administration

At the end of the fiscal year, the Authority had a net book value of \$1,062,692 invested in land, pole barn, operating facility, vehicles, maintenance equipment and office equipment (net of accumulated depreciation). The main capital assets added were a bus wash facility through a Capital Access Grant Z6 Contract. Other additions included \$84,915 for a vehicle locator system purchased through a Capital Asset Grant Z10 Contract. Also, computers with a value of \$9,361 and telephone system with a value of \$16,308 purchased through a Capital Asset Grant Z10 Contract.

EATRAN has no long-term debt.

EATRAN has a line of credit for \$150,000 with Irwin Union Bank to cover potential cash flow shortages. This line of credit was unused as of September 30, 2007. The Line of credit matures in September, 2008.

Economic Factors

Both State and Federal governments appropriate many of the funds that subsidize public transportation operations. Federal funds this fiscal year were 17%. The State funds have declined during the past three years in total dollars and as a percent of expenditures as detailed in the table below.

<u>Fiscal Year</u>	<u>Budget Total</u>	<u>Subsidy Amount</u>	<u>Subsidy Percentage</u>	<u>Net Change in Dollars</u>	<u>Net Change in Percentage</u>
FY 04	\$2,197,650	\$928,287	42.24%	\$ 11,553	-1.56%
FY 05	\$2,238,651	\$860,537	38.44%	\$(67,750)	-3.80%
FY 06	\$2,148,651	\$843,345	39.25%	\$(17,192)	.81%
FY 07	\$2,363,516	\$912,790	38.62%	\$ 69,445	-.63%

Eaton County Transportation Authority

Management's Discussion and Analysis

Millage (Property Taxes)

EATRAN'S property tax is levied each December 1, based on the state equalized value of property located in the county as of the preceding December 31. Taxes levied for EATRAN operations consisted of .2469 mills. Property tax revenue as of September 30, 2007 was \$794,552.

Other Highlights

On June 21, 2004, all full-time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aides at EATRAN voted to have the Amalgamated Transit Union Local 1761 as their collective bargaining representative. Negotiations began October 20, 2004 and a contract was agreed upon and signed on June 14, 2006.

Contact Information

This financial report is intended to provide our citizens, taxpayers and transit users with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Administrative Assistant at 916 E. Packard Hwy., Charlotte, MI 48813. Phone: (517) 543-4145.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 15,270
Accounts receivable	11,782
Due from federal government	284,704
Due from state government	113,265
Inventory	21,370
Prepaid expenses	51,521

TOTAL CURRENT ASSETS	497,912
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CAPITAL ASSETS

Work in progress	75,280
At cost, less accumulated depreciation of \$ 2,387,762	987,412

TOTAL CAPITAL ASSETS	1,062,692
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TOTAL ASSETS	\$ 1,560,604
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 80,835
Accrued wages and related payroll taxes	44,924
Compensated absences	55,999

TOTAL CURRENT LIABILITIES	181,758
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NET ASSETS

Investment in capital assets	987,412
Unreserved	391,434

TOTAL NET ASSETS	1,378,846
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TOTAL LIABILITIES AND NET ASSETS	\$ 1,560,604
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See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	PROGRAM REVENUES				BUSINESS - TYPE ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
FUNCTIONS/PROGRAMS					
Business-type activities	\$ <u>2,492,104</u>	\$ <u>263,990</u>	\$ <u>1,337,469</u>	\$ <u>551,370</u>	\$ <u>(339,275)</u>
		General Revenues and Expenses			
					794,552
					5,289
					(13,272)
					480
					26
		Total General Revenues and Expenses			<u>787,075</u>
		Change in Net Assets			447,800
		NET ASSETS, OCTOBER 1			<u>931,046</u>
		NET ASSETS, SEPTEMBER 30			\$ <u>1,378,846</u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES	\$ 263,990
OPERATING EXPENSES	<u>2,505,376</u>
LOSS FROM OPERATIONS	(2,241,386)
NONOPERATING REVENUES (EXPENSES)	<u>2,689,186</u>
NET INCOME	447,800
NET ASSETS, OCTOBER 1	<u>931,046</u>
NET ASSETS, SEPTEMBER 30	<u><u>\$ 1,378,846</u></u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 259,858
Payment to suppliers	(591,595)
Payment to employees	<u>(1,747,396)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,079,133)</u>

CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES

Federal grants	371,011
State grants	986,436
Property taxes	794,552
Local contributions	<u>26</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,152,025</u>

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

Purchase of capital assets	(558,369)
Proceeds from sale of buses	480
Proceeds from capital contributions	<u>466,597</u>
NET CASH USED IN CAPITAL AND RELATED AND RELATED FINANCING ACTIVITIES	<u>(91,292)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>5,289</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,111)
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CASH AND CASH EQUIVALENTS, OCTOBER 1	<u>28,381</u>
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CASH AND CASH EQUIVALENTS, SEPTEMBER 30	<u><u>\$ 15,270</u></u>
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See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS - Concluded
FOR THE YEAR ENDED SEPTEMBER 30, 2007

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATIONS

Loss from operations	\$ (2,241,386)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	159,432
(Increase) decrease in	
Accounts receivable	(4,132)
Inventory	(3,150)
Prepaid expenses	(13,302)
Increase (decrease) in	
Accounts payable	13,305
Accrued wages and related payroll taxes	13,241
Compensated absences	<u>(3,141)</u>
	<u>\$ (2,079,133)</u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 1: REPORTING ENTITY

Eaton County Transportation Authority was incorporated on July 17, 1980, as a nonprofit corporation organized pursuant to the State of Michigan Public Transportation Authority Act 7 of 1967 of the State of Michigan. Its member municipalities include the Cities of Charlotte, Grand Ledge, Eaton Rapids, and Olivet, the Township of Delta, and the County of Eaton.

In June, 2004, the majority of the employees of the Authority organized and formed the Amalgamated Transit Union Local 1761. The union covers all full time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aids.

RELATED ORGANIZATION

Eaton County

Eaton County levies and collects a millage for the Authority, but does not hold title to the Authority's assets, nor does it have rights or obligations to surpluses or deficits of the Authority. The Authority is a legally separate entity established to provide public transportation services to citizens within the county.

Eaton County Transportation Authority is eligible to receive federal and state financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. Eaton County Transportation Authority provides demand response services within Eaton County. The Authority also provides special services on a contractual basis to nonprofit agencies within the County.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Eaton County Transportation Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of significant policies:

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of Eaton County Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on the primary government of Eaton County Transportation Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for services.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Basis of Presentation

The accounts of Eaton County Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

Enterprise Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Presentation - Concluded

Enterprise Fund - Concluded

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

D. Basis of Accounting

The accrual basis of accounting is followed by Eaton County Transportation Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

E. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal and/or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Eligible depreciation includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved.

The estimated useful lives are:

ASSET	DEPRECIABLE LIFE
Building	10-40 years
Vehicles	5-10 years
Equipment	3-10 years

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Concluded

F. Receivables

Receivables have been recognized for all significant amounts due the Authority. No allowances have been made for uncollectible amounts because management feels all accounts receivable are considered collectable.

G. Inventory

Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

H. Cash

Eaton County Transportation Authority cash accounts consist of checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. For the purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Reliance on Funding Sources

The Authority receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Authority's programs and activities.

K. Explanation of Ineligible Expenses Per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. Any capital money received used to pay for operating expenses has been subtracted out as ineligible expenses.

L. Contingencies

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the transit agency expects such amounts, if any, to be immaterial.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 3: CASH DEPOSITS

Deposits are carried at costs. Deposits of the Authority are at Eaton Federal Bank, in the name of Eaton County Transportation Authority. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States Banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority's cash deposits at September 30, 2007 are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ <u>15,270</u>
---------------------------	------------------

The above amounts are classified by Government Accounting Standards Board Statement No. 40 in the following categories:

Bank deposits (checking and savings accounts)	\$ 15,105
Petty cash or cash on hand	<u>165</u>
Total	\$ <u>15,270</u>

Deposits are carried at fair market value. The Authority is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 3: CASH DEPOSITS AND INVESTMENTS – Concluded

Deposit and Investment Risk - Concluded

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the Authority's investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of September 30, 2007, \$0 of the Authority's bank balance of \$72,783 was exposed to custodial credit risk.

Uninsured and uncollateralized

\$ _____

NOTE 4: CAPITAL ASSETS

Depreciation included in the determination of net earnings for the year ended September 30, 2007, amounted to \$159,430. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of capital assets are summarized as follows:

	BALANCE SEPTEMBER 30, 2006	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2007
CAPITAL ASSETS				
Land	\$ 52,674	\$	\$	\$ 52,674
Pole barn	71,232			71,232
Operating facility	969,647			969,647
Vehicles	1,485,171	35,940	77,391	1,443,720
Maintenance equipment	102,291			102,291
Office equipment	302,227	81,644	83,767	300,104
Bus wash		435,508		435,508
Work in progress	<u>70,002</u>	<u>15,278</u>	<u>10,000</u>	<u>75,280</u>
TOTAL CAPITAL ASSETS	<u>3,053,244</u>	<u>568,370</u>	<u>171,158</u>	<u>3,450,456</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 4: **CAPITAL ASSETS - Concluded**

	BALANCE SEPTEMBER 30, 2006	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2007
ACCUMULATED DEPRECIATION				
Land	\$	\$	\$	\$
Pole barn	7,914	2,374		10,288
Operating facility	734,776	43,844		778,620
Vehicles	1,280,700	97,665	77,391	1,300,974
Maintenance equipment	94,663	2,618		97,281
Bus wash		932		932
Office equipment	<u>271,437</u>	<u>11,999</u>	<u>83,767</u>	<u>199,669</u>
Total accumulated depreciation	<u>2,389,490</u>	<u>159,432</u>	<u>161,158</u>	<u>2,387,764</u>
NET CAPITAL ASSETS	<u>\$ 663,754</u>	<u>\$ 408,938</u>	<u>\$ 10,000</u>	<u>\$ 1,062,692</u>
	USEFUL LIFE YEARS	PURCHASED WITH CAPITAL GRANTS	PURCHASED WITH AUTHORITY FUNDS	TOTAL
Land		\$ 52,674	\$	\$ 52,674
Pole barn	10-40		71,232	71,232
Operating facility	10-40	758,594	211,053	969,647
Vehicles	5-10	1,168,020	275,700	1,443,720
Maintenance equipment	3-10	56,032	46,259	102,291
Office equipment	3-10	109,097	191,007	300,104
Bus wash	39	435,508		435,508
Work in progress		<u>75,280</u>	<u> </u>	<u>75,280</u>
TOTAL		<u>\$ 2,655,205</u>	<u>\$ 795,251</u>	<u>\$ 3,450,456</u>

When federal and state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 5: DUE FROM FEDERAL GOVERNMENT

Eaton County Transportation Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2007, is as follows:

For the Year Ended September 30, 2007

Net eligible expenses	\$ 2,346,627	
Funding rate	<u>17%</u>	
Section 5311 revenue	398,927	
Funding received	<u>273,136</u>	
Balance due from year ended September 30, 2007		\$ 125,791
Balance due from year ended September 30, 2006		49,424
Balance due from other capital grants		<u>109,489</u>
Due from federal government		\$ <u>284,704</u>

NOTE 6: DUE FROM STATE GOVERNMENT

Eaton County Transportation Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2007, is as follows:

Eligible costs	\$ 2,354,127	
Funding rate	<u>38.6208%</u>	
Funding earned	909,183	
Funding received	<u>912,804</u>	
Balance due to year ended September 30, 2007		\$ (3,621)
Balance due from year ended September 30, 2006		95,104
Balance due to year ended September 30, 2005		(4,927)
Balance due to from year ended September 30, 2004		(5,846)
Balance due from other capital grants		27,372
Balance due from Job Access Grant, September 30, 2005		<u>5,183</u>
Due from state government		\$ <u>113,265</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2007

NOTE 7: RETIREMENT PLAN

Eaton County Transportation Authority sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are at the discretion of the Board of Directors. During the year ended September 30, 2007, contributions to the plan charged to operations were \$0.

NOTE 8: CONTRIBUTED CAPITAL

The contributed capital has been combined with the Authority's retained earnings for GASB 34 requirements.

NOTE 9: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. A maximum of 80 hours can be carried over to the next year. Upon separation, unused vacation time accrued during the year of termination plus carryover hours from prior years will be paid along with the employee's final paycheck.

Sick leave is earned at the rate of 1.5 hours per payroll period, provided the employee has attained 70 hours of pay status credit. All employees will be reimbursed for hours in excess of 40 hours accrued sick leave at their anniversary date. Accrued sick leave in excess of 40 hours will be paid to a terminated employee at the time of separation.

Personal leave is earned in varying amounts depending on the number of years of service of an employee. Personal leave time earned but not used is paid by their anniversary date each year. As of September 30, 2007, accrued compensated absence was \$55,999.

NOTE 10: PROPERTY TAXES

Eaton County Transportation Authority's property tax is levied on each December 1, on the state equalized valuation of property located in the county as of the preceding December 31.

The 2007 taxable valuation of Eaton County totaled \$3,229,546, on which ad valorem taxes levied for Transportation Authority operations consisted of .2469 mills. Property tax revenue as of September 30, 2007 was \$797,375.

NOTE 11: LEASES

The Authority has a three year lease for a copier. The monthly lease payments are \$265 and the lease expires in August, 2008.

The future minimum lease payments (with initial or remaining lease terms of one year) as of September 30, 2007 are as follows:

YEAR ENDING	AMOUNT
September 30, 2008	\$ <u>2,120</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANANCIAL STATEMENTS - Concluded

SEPTEMBER 30, 2007

NOTE 12: RISK MANAGEMENT

The Authority is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of Eaton County Transportation Authority.

The Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Authority continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

NOTE 13: LINE OF CREDIT

The Authority has a line of credit for \$150,000 with Irwin Union Bank to cover potential cash flow shortages. This line of credit was unused as of September 30, 2007. The line of credit matures in September, 2008.

NOTE 14: SEGMENT INFORMATION

Operating revenues	\$ 263,990
Depreciation expense	159,432
Operating income (loss)	(2,241,386)
Net income (loss)	447,800
Additions to building and equipment	553,091
Net working capital	316,154
Total assets	1,560,604
Total equity	1,378,846

SUPPLEMENTARY INFORMATION



Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

Our report on our audit of the basic financial statements of Eaton County Transportation Authority as of and for the year ended September 30, 2007 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the audited procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Layton & Richardson, P.C.
Certified Public Accountants

March 18, 2008
East Lansing, Michigan

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EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Demand response (farebox)	\$ 190,455
Contract fares	58,344
Package delivery/Meals-On-Wheels	<u>15,191</u>
 TOTAL OPERATING REVENUES	 \$ <u><u>263,990</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF NONOPERATING REVENUES (EXPENSES)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

State of Michigan Operating Grants	
Nonurban Operating Assistance (Act 51)	\$ 909,183
Prior year adjustment	27,785
Capital grants	<u>110,274</u>
Total State of Michigan Operating Grants	<u>1,047,242</u>
Federal Operating Grants	
U.S. FTA operating grant - Section 5311	398,927
RTAP training funds	1,574
Capital grants	<u>441,096</u>
Total Federal Operating Grants	<u>841,597</u>
Local Nonoperating Revenues (Expenses)	
Property taxes	794,552
Investment income	5,289
Gain on disposal of bus	480
Other local revenues	<u>26</u>
Total Local Nonoperating Revenues (Expenses)	<u>800,347</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>\$ 2,689,186</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 740,452	\$	\$ 90,289	\$ 740,452
Other salaries and wages	67,150	114,197		271,636
Dispatcher's salaries and wages	153,234			153,234
Fringe benefits	490,770	55,358	46,046	592,174
Services				
Advertising fees			5,553	5,553
Audit cost			7,500	7,500
Other services	1,714	23,916	53,917	79,547
Materials and supplies consumed				
Fuel and lubricants	247,976			247,976
Tires and tubes	19,507			19,507
Other materials and supplies		62,817	6,767	69,584
Utilities	24,466	11,157	4,636	40,259
Casualty and liability costs				
Premiums - public liability and property damage insurance	59,139			59,139
Other insurance			16,225	16,225
Miscellaneous expenses				
Travel and meetings	287	509	3,935	4,731
Association dues and subscriptions			19,697	19,697
Other miscellaneous expenses		116	2,162	2,278
Interest expense			13,272	13,272
Operating leases and rentals			3,180	3,180
Depreciation	<u>107,346</u>	<u>9,723</u>	<u>42,363</u>	<u>159,432</u>
TOTAL OPERATING EXPENSES	\$ <u>1,912,041</u>	\$ <u>277,793</u>	\$ <u>315,542</u>	\$ <u>2,505,376</u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Labor	\$ 1,165,322
Fringe benefits	592,174
Services	92,600
Materials and supplies	337,067
Utilities	40,259
Casualty and liability costs	75,364
Miscellaneous	26,706
Interest expense	13,272
Leases and rentals	3,180
Depreciation	<u>159,432</u>
Total	2,505,376
Less: Ineligible expenses	<u>158,749</u>
 TOTAL ELIGIBLE EXPENSES	 \$ <u><u>2,346,627</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE
OPERATING EXPENSES		
Labor	\$ 1,165,322	\$ 1,165,322
Fringe benefits	592,174	592,174
Services	92,600	92,600
Materials and supplies	337,067	337,067
Utilities	40,259	40,259
Casualty and liability costs	75,364	75,364
Miscellaneous	26,706	26,706
Interest expense	13,272	13,272
Leases and rentals	3,180	3,180
Depreciation	159,432	159,432
TOTAL OPERATING EXPENSES	<u>2,505,376</u>	<u>2,505,376</u>
LESS INELIGIBLE EXPENSES		
Audit fee	7,500	
RTAP	1,574	1,574
Interest expense	13,272	13,272
Depreciation	136,403	136,403
TOTAL INELIGIBLE EXPENSES	<u>158,749</u>	<u>151,249</u>
NET ELIGIBLE EXPENSES	<u>2,346,627</u>	<u>2,354,127</u>
Federal Section 5311 revenue (17.00%)	<u>\$ 398,927</u>	
State Operating Assistance		
A. Reimbursement (38.6208 X \$2,354,127)		\$ <u>909,183</u>
B. Statutory cap (60% x \$2,354,127)		\$ <u>1,412,476</u>
C. Must receive as a minimum 1997		\$ <u>525,195</u>

EATON COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 06-07	20.509	Z012/2002-0036	\$ 398,927	\$ 398,927
RTAP training funds	20.509		1,574	1,574
Capital grants:				
Contract:				
Z003/2002-0036	20.500	Z003/2002-0036	21,022	21,022
Z006/2002-0036	20.500	Z006/2002-0036	331,606	331,606
Z010/2002-0036	20.500	Z010/2002-0036	88,468	88,468
TOTAL FEDERAL AWARDS			<u>841,597</u>	<u>841,597</u>
STATE				
<u>Michigan Department of Transportation</u>				
Nonurban Operating Assistance (Act 51)	N/A	2002-0036	909,183	909,183
Prior year adjustments				
operating grant	N/A			
2006		2002-0036	(13,997)	(13,997)
2005		2002-0036	36,951	36,951
2004		2002-0036	4,831	4,831
Capital grants:				
Contract:				
Z003/2002-0036	N/A	Z003/2002-0036	5,256	5,256
Z006/2002-0036	N/A	Z006/2002-0036	82,901	82,901
Z010/2002-0036	N/A	Z010/2002-0036	22,117	22,117
TOTAL STATE AWARDS			<u>1,047,242</u>	<u>1,047,242</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 1,888,839</u>	<u>\$ 1,888,839</u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	NORMAL SERVICE
DEMAND RESPONSE VEHICLE MILES	
First Quarter	202,469
Second Quarter	211,261
Third Quarter	211,194
Fourth Quarter	202,999
	<hr/>
TOTAL DEMAND RESPONSE VEHICLE MILES	827,923
	<hr/> <hr/>

NOTE - The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

We have audited the financial statements of the business-type activities of Eaton County Transportation Authority as of and for the year ended September 30, 2007, which collectively comprise Eaton County Transportation Authority's basic financial statements and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eaton County Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eaton County Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eaton County Transportation Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Eaton County Transportation Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Eaton County Transportation Authority's financial statements that is more than inconsequential will not be prevented or detected by Eaton County Transportation Authority's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 SEGREGATION OF DUTIES

Due to the limited personal in the accounting department, the Authority lacks segregation of duties over several areas, including cash receipting, journal entry processes, and cash disbursements. The limited size of the staff does not allow for segregating duties. The Authority should be aware of these areas and attempt to establish procedures to minimize this lack of controls.

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2007-2 PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Authority rests with the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Eaton County Transportation Authority. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Authority's annual financial statements and notes to the financial statements in accordance with GAAP. The Authority relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

2007-3 FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Authority has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Authority not developing a fraud risk assessment and monitoring program it is unable to assess the organization's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Authority develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Eaton County Transportation Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eaton County Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Eaton County Transportation Authority, in a separate letter dated March 18, 2008.

This report is intended solely for the information and use of management and the Authority's Board and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

East Lansing, Michigan
March 18, 2008



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

Compliance

We have audited the compliance of Eaton County Transportation Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. Eaton County Transportation Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Eaton County Transportation Authority's management. Our responsibility is to express an opinion on Eaton County Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about Eaton County Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Eaton County Transportation Authority's compliance with those requirements.

In our opinion, Eaton County Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Eaton County Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Eaton County Transportation Authority's internal control over compliance.

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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Eaton County Transportation Authority as of and for the year ended September 30, 2007, and have issued our report thereon dated March 18, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Eaton County Transportation Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

East Lansing, Michigan
March 18, 2008

EATON COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Eaton County Transportation Authority.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements. See findings below. None were considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Eaton County Transportation Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for Eaton County Transportation Authority expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for Eaton County Transportation Authority.
7. The programs tested as major programs included: Michigan Department of Transportation – Federal Transit – Capital Investment Grants, CFDA No. 20.500
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. Eaton County Transportation Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

See findings 2007-01, 2007-02, and 2007-03 in Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on pages 35-37.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

EATON COUNTY TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Eaton County Transportation Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 06-07	20.509	Z012/2002-0036	\$ 398,927	\$ 398,927
RTAP training funds	20.509		1,574	1,574
Capital grants:				
Contract:				
Z003/2002-0036	20.500	Z003/2002-0036	21,022	21,022
Z006/2002-0036	20.500	Z006/2002-0036	331,606	331,606
Z010/2002-0036	20.500	Z010/2002-0036	88,468	88,468
TOTAL FEDERAL AWARDS			\$ <u>841,597</u>	\$ <u>841,597</u>



Layton & Richardson, P.C.

Certified Public Accountants

AUDITORS' LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

We have audited the general purpose financial statements of Eaton County Transportation Authority for the year ended September 30, 2007, and have issued our report on those statements. As part of the audit process, we tested and evaluated the system of internal accounting control and the procedures used to record the financial transactions of Eaton County Transportation Authority. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

The management of Eaton County Transportation Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the internal accounting control system would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Eaton County Transportation Authority.

PRIOR YEAR RECOMMENDATIONS

PAYROLL

We noted during our audit that some employees' W-4's were outdated. We recommend new W-4's be filled out for both federal and state every three years. This will provide accurate and updated records. It also will verify that the correct withholding allowances are being used. **This has been implemented. All employee's W-4s were updated, but the board members' W-4s were not updated. We recommend these W-4s be updated as well. Current year status: This has been implemented.**

During our examination, we noted that the policy for payroll was changed during August, 2006. One person is now in charge of the entire payroll function. We recommend that the payroll journal accompany the payroll checks when they are given to the authorized check signer. The check signer should review the payroll journal and make sure the hours and pay rates are correct. We also recommend the General Manager be the person to hand out payroll checks. This will help to improve controls over payroll. **Current year status: This recommendation has not been implemented.**

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PRIOR YEAR RECOMMENDATIONS - Continued

COMPUTER SOFTWARE

We recommend that the backup data files be tested at least four times a year. This will provide assurance that the backup data will be useful in the event that it is needed. **This has not been implemented. The computer gives a message to the operator that the back-up was successful after completion. However, no restoration test was performed. Board of Directors and management response: This will be implemented. Current year status: This recommendation has not been implemented.**

CASH RECEIPTS

We noted during our audit that the person who creates the deposit slip is the same person who takes the deposit to the bank. We recommend someone other than the person who creates the deposit slip take the deposit to the bank. This will improve controls over cash receipts as it will decrease the opportunity for theft and fraud. **This has not been implemented. Board of Directors and management response: This will be implemented. Current year status: This recommendation has not been implemented.**

We noted during our audit that some deposits were not made in a timely manner. We recommend deposits, especially those containing large cash receipts, be made in a timely manner. This will greatly increase controls over cash receipts and will decrease the chance for theft and fraud. **This has not been implemented. Board of Directors and management response: This will be implemented during the current year. Current year status: This recommendation has been implemented.**

GENERAL

During our audit examination, we noted that the Administrative Assistant is an authorized check signer. Although she does not sign any checks, she is an authorized signer so that she can transfer money from one bank account to another. We recommend that the General Manager be the person to make the bank money transfers. We also recommend that the Administrative Assistant be removed as an authorized check signer. This will improve controls over cash and will improve segregation of duties for this matter. **This has not been implemented. Board of Directors and management response: This will be implemented. Current year status: This recommendation has not been implemented.**

It was noted that the Authority does not have a current investment or credit card policy. We recommend that the Authority implement both an investment policy and credit card policy as soon as possible. The investment policy needs to be in accordance with GASB 40. **Current year status: This recommendation has been implemented.**

We noted during our audit that the bank reconciliation does not get reviewed after it is prepared. Due to the lack of segregation of duties in the cash receipts, cash disbursements and payroll department, we recommend the bank reconciliation be reviewed for accuracy and unusual entries. This will help increase controls over cash. Further, we recommend that outstanding checks print in numerical order on the bank reconciliation. This will help to account for all checks. **This has not been implemented. Board of Directors and management response: This will be implemented during the current year. Current year status: This recommendation has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Concluded

CASH DISBURSEMENTS

We noted instances during our audit where not all of the invoices that were paid were being cancelled. We also noted that the invoices are cancelled by a stamp that says “paid”. We recommend the check number and date also be written on every invoice. This will improve controls over cash disbursements. **This has partially been implemented. All invoices are now stamped “paid” for cancelling. However, the check number and date are not written on the invoice(s). This has not been implemented. Board of Directors and management response: This will be implemented during the current year. Current year status: This recommendation has not been implemented.**

CURRENT YEAR RECOMMENDATIONS

PAYROLL

We noted during our testing instances where payroll deductions were authorized, but not withheld. The employee verbally stated to stop the payroll deduction. We recommend all changes with payroll deductions be in written form. This will ensure current and complete records are maintained.

We noted during our testing several instances where payroll deductions were not easily found in the employee personnel files. This is due to some files having payroll deduction authorization forms updated annually, and some did not. We recommend having all employees fill out a new payroll deduction authorization form every year. This will ensure payroll deduction amounts and personnel files are current and accurate.

GENERAL

During our audit, we noted the bank statements are not being reconciled to the general ledger on a monthly basis. We recommend the bank statements be reconciled monthly. Bank statements should be forwarded to the General Manager and receive approval before reconciling.

During our audit, we noted the Board of Directors does not review the bank reconciliation and therefore, are not aware of the monthly cash flow. We recommend the Board review the bank reconciliation as a general procedure at their monthly meetings. This will improve controls over cash.

We are grateful to the Authority’s employees for the assistance and cooperation we received during the audit and we thank them.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
March 18, 2008